

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

RECEIVED

JUN 26 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

Access Charge Reform)

CC Docket No. 96-262

COMMENTS

BellSouth Corporation and BellSouth Telecommunications, Inc. ("BellSouth") hereby submit their comments on the *Further Notice of Proposed Rulemaking* ("Notice") released by the Commission on May 16, 1997 in the above referenced proceeding.¹

I. INTRODUCTION

In its *Notice*, the Commission solicits comments on two issues: (1) whether presubscribed interexchange carrier charges (PICCs) should be applied to special access; and (2) whether the Part 69 cost allocation rules should be amended so as to allocate a portion of General Support Facilities (GSF) investment to the nonregulated billing and collection access element. For the reasons more fully discussed below, the Commission should not proceed with either proposal.

The Commission considers the application of PICCs to special access as a measure to stem the possible migration of users of the public switched network to special access. The Commission's proposal is flawed in several respects. In the first instance, the Commission's proposal fails to address the cause that gives rise to the potential migration-- implicit universal

¹ *Access Charge Reform*, CC Docket No. 96-262; *Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1; *Transport Rate Structure*, CC Docket No. 91-213; and *End User Common Line Charges*, CC Docket No. 95-72, *First Report and Order*, ("Access Charge Reform Order") and *Further Notice of Proposed Rulemaking*, ("Notice") FCC 97-158, released May 16, 1997.

service subsidy. This failure in turn leads not to a proposed remedy for the implicit subsidy but rather a proposal that would create a new implicit subsidy. Further, rather than stemming the migration of public switched network users to special access, all that the Commission's proposal would do is to ensure that the migration would be to competitors of the incumbent local exchange carriers (LECs) who do not have the burden of these implicit subsidies.

Similarly, the Commission's proposal to allocate GSF investment to the billing and collection element is not well founded. To an extent, the Commission's consideration of a Part 69 cost allocation modification is an attempt to mitigate the recent increase in the interstate assignment of GSF investment that occurred when the Commission, upon the recommendation of the Joint Board, modified the jurisdictional separations process regarding the allocation of other billing and collection expenses.² In BellSouth's view, GSF allocations are inextricably tied to jurisdictional separations reform. The Commission has acknowledged that such reform will soon begin.³ Such reform could lead to significant changes in the manner in which specific cost categories are allocated between the state and interstate jurisdiction. Whether or not Part 69 changes should or need to be made would be better resolved following separations reform. Given that there is no indication at the present time that, in total, there is an under allocation of costs to the billing and collection element, administrative economy would suggest that separations reform should precede any Part 69 adjustments.

² *Amendment of Part 36 of The Commission's Rules and Establishment of a Joint Board*, 12 FCC Rcd 2679 (1997)

³ *Access Charge Reform Order* at ¶ 213.

II. THE COMMISSION SHOULD NOT APPLY PICCS TO SPECIAL ACCESS (PARAS. 397-406)

In the *Notice*, the Commission observes that as a result of the recent changes to its access charge rules, multiline business users will experience an increase in subscriber line charges (SLCs) and that interexchange carriers providing toll services to these customers will be required to pay PICCs on these lines which will be higher initially than the PICCs assessed on primary residence and single line businesses.⁴ The Commission contrasts the multiline business circumstance with that of special access. The Commission notes that special access users do not pay SLCs and that IXC incur the same access charges for special access customers as compared to those end users using switched access.⁵ These differences coupled with the recent access charge rule changes lead the Commission to express the concern that some multiline business users could migrate from the public switched network to special access and, thus, cause the PICCs on the remaining multiline business lines to increase.⁶

As a remedy for this potential problem, the Commission tentatively concludes that price cap LECs should be permitted to assess a PICC on special access. The Commission's proposal is ill-advised. The factors mentioned by the Commission that underlie its concern are not a basis for assessing a PICC on special access. For example, the Commission's observation that special access users do not pay SLCs or other switched access charges does not mean that special access is economically more attractive than switched access. The full cost of special access lines are recovered from special access users.

⁴ *Notice* at ¶ 400.

⁵ *Notice* at ¶ 401.

⁶ *Notice* at ¶¶ 401-02.

To the extent that recent access charge rule revisions will lead to uneconomic service bypass, the cause of such bypass is due to the fact that the charges assessed on multiline business lines include implicit universal service subsidies. This situation is not remedied by creating a new implicit subsidy through the assessment of PICC charges on special access, as the Commission proposes.

Further, the Commission's proposal overlooks the competitiveness of the marketplace for special access. Imposing PICC charges on the special access services provided by price cap LECs will do nothing to deter uneconomic service bypass. There is ample evidence in the record of this proceeding of widespread availability of alternatives to the special access services provided by incumbent LECs. Multiline business users will simply use special access services provided by alternative access providers. The only thing that will be accomplished by the Commission's proposal will be to establish regulations that significantly disadvantage price cap LECs in the marketplace for special access services.

BellSouth shares the Commission's concern regarding the potential uneconomic consequences of maintaining implicit subsidies in switched access charges. Unfortunately, a federal universal service fund that makes these subsidies explicit is yet to be implemented. The immediate step, however, that the Commission can take to mitigate the negative impact of continuing the implicit subsidies in switched access would be to provide price cap LECs with meaningful pricing flexibility, including deaveraging multiline SLCs and PICCs. Such pricing flexibility would afford price cap LECs an opportunity to lessen the distortions created by the existence of implicit subsidies.

III. THE COMMISSION SHOULD NOT MODIFY THE COST ALLOCATION RULES IN PART 69 (PARAS. 407-418)

In the *Notice*, the Commission is considering changes to the Part 69 cost allocation rules that would result in an increase in the cost allocation to the non-regulated billing and collection access element. Specifically, the *Notice* sets forth two proposals each of which would reallocate a portion of GSF costs to the billing and collection element.⁷ Neither of these proposals should be adopted.

As the Commission recognizes, the Part 69 cost allocation rules build upon the results of the jurisdictional separations process.⁸ Indeed, many of the Part 69 allocation mechanisms follow jurisdictional allocation principles and procedures. The Commission has already acknowledged its intent to reform the current jurisdictional separations rules. Without question such reform will significantly affect the Part 69 cost allocation results and the efficacy of the rules themselves. In other words, on the heels of separations reform will have to be a complete evaluation of the Part 69 allocation rules.

Logically, administrative economy compels an orderly approach to change. As such, it is incongruous to focus upon changes to single elements within the Part 69 cost allocation rules, such as GSF, in view of the impending substantial changes. This is particularly true where, as is the case here, there is no evidence that, in total, the Part 69 rules do not allocate a reasonable share of interstate costs to billing and collection. Indeed, a fundamental deficiency in the

⁷ The Commission observes that the costs of general support computers, which may be used to provide non-regulated billing and collection services, are included in GSF investment and expense accounts.

⁸ *Notice* at ¶ 408.

proposals that are set forth in the *Notice* is an unfounded presumption that absent the reallocation of GSF costs, that billing and collection costs are understated. This is simply not the case. The Part 69 rules, as they are currently constituted, overallocate costs to the billing and collection element.⁹

Notwithstanding the existing overallocation of costs to the billing and collection element, the proposals set forth in the *Notice* are lacking. The first alternative would require a study of the uses of general purpose computer investments recorded in account 2124 to determine the amount of investment in that account that is used in the provision of non-regulated billing and collection services.¹⁰ A particularly troublesome aspect of this proposal is the new regulatory burdens that the Commission appears so willing to impose on price cap LECs. There is an extremely limited business opportunity in providing billing and collection services. Increasing regulatory administrative costs, such as conducting studies that have no business purpose, only tend to marginalize the business opportunity.

Further, the type of study would not result in a cost-causative allocation of costs. The accounting categories are overly broad and as a result, whatever factor results from the study would arbitrarily overallocate costs to the billing and collection category.

The second type alternative set forth in the *Notice* would rely on the use of a general expense allocator to allocate a portion of account 2110 to the billing and collection element.

⁹ Although interstate billing and collection revenues in 1996 (\$68.3 million) are less than half of what they were in 1990 (\$149.2 million), the allocation of interstate billing and collection expenses has increased 28 percent during the same period (\$76.7 million in 1990; \$98.5 million in 1996).

¹⁰ GSF expenses recorded in account 6124 would be allocated to access categories based on the allocation of account 2124 investment.

While this alternative does not create new administrative burdens, as is the case with the first alternative, the arbitrariness of allocation results renders the alternative unacceptable. The billing and collection element is already burdened with excessive cost allocations. The use of a broad general allocator to allocate an equally broad category of costs cannot be justified given the existing Part 69 allocation to billing and collection.

IV. CONCLUSION

The *Notice* presents two ill-conceived proposals. BellSouth has shown in these comments that the application of a PICC to special access lines would not have the effect intended by the Commission. Equally misguided would be the modification of the Part 69 cost allocation rules to allocate a portion of GSF costs to the billing and collection element. There is no evidence that, in total, the billing and collection element does not bear a fair and equitable portion of interstate costs. In the absence of such evidence, cost allocation adjustments should be done more completely, starting with jurisdictional separations reform.

Respectfully submitted,

BELLSOUTH CORPORATION
BELLSOUTH TELECOMMUNICATIONS, INC.



M. Robert Sutherland
Richard M. Sbaratta

Their Attorneys

Suite 1700
1155 Peachtree Street, N. E.
Atlanta, Georgia 30309-3610
(404) 249-3386

Date: June 26, 1997